

Report to:	Overview & Scrutiny Committee (Regulatory, Compliance & Corporate Services) Cabinet Council	Date of Meeting:	7 February 2023 9 February 2023 2 March 2023
Subject:	Prudential Indicators 2023/24		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No		

Summary:

The CIPFA Prudential Code for Capital Finance in Local Authorities was introduced following the Local Government Act 2003. It details a number of measures / limits / parameters (Prudential Indicators) that are required to be set each financial year. The approval of these limits will provide a benchmark to measure actual performance against, to help ensure that the Council complies with relevant legislation, is acting prudently and that its capital expenditure proposals are affordable.

Recommendation(s):

Overview & Scrutiny Committee is requested to:

- 1) Consider the Prudential Indicators (as detailed in the report) as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
- 2) Note that the relevant Prudential Indicators will be revised as required and that any changes will be brought to Cabinet and then to Council for approval;
- 3) Note that the estimates of capital expenditure may change as grant allocations are received; and
- 4) Provide any comments to Council which will be considered as part of the formal approval of the Prudential Indicators for 2023/24.

Cabinet is recommended to:

- 1) Recommend to Council that the Prudential Indicators (as detailed in the report)

are set as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;

- 2) Note that the relevant Prudential Indicators will be revised as required and that any changes will be reported to Cabinet and then to Council for approval;
- 3) Note that the estimates of capital expenditure may change as grant allocations are received; and
- 4) Recommend to Council that authority is delegated to the Executive Director of Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 6 of the report.

Council is recommended to:

- 1) Approve the Prudential Indicators (as detailed in the report) as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
- 2) Note that relevant Prudential Indicators will be revised as required and that any changes will be brought to Cabinet and then to Council for approval;
- 3) Note that the estimates of capital expenditure may change as grant allocations are received; and
- 4) Delegate authority to the Executive Director of Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 6 of the report.

Reasons for the Recommendation(s):

To enable the Council to effectively manage its Capital Financing activities and comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year.

Alternative Options Considered and Rejected:

None

What will it cost and how will it be financed?

(A) Revenue Costs

n/a

(B) Capital Costs

n/a

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):

The prudential indicators will allow for capital spending obligations to be managed within the budget for 2023/24.

Legal Implications: None.

Equality Implications: None.	
Climate Emergency Implications:	
The recommendations within this report will	
Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N
The setting of the Prudential Indicators will have no direct impact on the Council's Climate Emergency.	

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: n/a
Facilitate sustainable economic prosperity: Support Capital Investment by measuring the impact and affordability of decisions over the medium-term financial planning horizon.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD7099/23) is the author of the report. The Chief Legal and Democratic Officer (LD5299/23) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

None.

Implementation Date for the Decision

With immediate effect following the Council meeting.

Contact Officer:	Graham Hussey
Telephone Number:	0151 934 4100
Email Address:	Graham.Hussey@sefton.gov.uk

Appendices:

Appendix A – Summary of Prudential Indicators.

Background Papers:

There are no background papers available for inspection.

1. Introduction

- 1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. It details a number of measures/limits/parameters (Prudential Indicators) that are required to be set each financial year. The approval of these limits will ensure that the Council complies with the relevant legislation, is acting prudently and that its capital expenditure proposals are affordable.
- 1.2. CIPFA published its revised Code of Practice on Treasury Management and a revised Prudential Code for Capital Finance in Local Authorities in December 2021, replacing the codes published in 2017. The key changes in the two codes relevant to setting the prudential indicators are:
 - The introduction of a new prudential indicator: Net Income from Commercial and Service Investments to Net Revenue Stream
 - The removal of investment income from the calculation of Financing Costs to Net Revenue Stream
 - The recommendation of a treasury management indicator for managing interest rate risk.
- 1.3. The new codes took effect immediately, except that authorities could defer introducing revised reporting requirements until 2023/24. The Council has adopted CIPFA's 2021 Prudential Code for Capital Finance in Local Authorities when setting the Prudential Indicators for 2023/24 to 2025/26.
- 1.4. The Council is required to approve Prudential Indicators for the following items:
 - (i) Capital Expenditure (Section 2);
 - (ii) Financing Costs/Net Revenue Stream (Section 3);
 - (iii) Net Income from Commercial and Service Investments to Net Revenue Stream (Section 4)
 - (iv) Capital Financing Requirement (Section 5);
 - (v) External Debt (Section 6-9);
 - (vi) Treasury Management Indicators (Section 10).
- 1.5. The above indicators are presented in the following paragraphs and summarised at Appendix A.

2. Prudential Indicator – Capital Expenditure

- 2.1. This indicator details the overall total planned capital expenditure of the Council and therefore reflects the Council's Capital Programme.
- 2.2. The actual capital expenditure that was incurred in 2021/22 is shown below and the estimated current and future years capital programme are recommended for approval:

Capital Expenditure					
	2021/22 £m Actual	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate
TOTAL	32.536	50.136	76.543	65.185	33.342

- 2.3. The estimated levels of expenditure above represent those elements approved by Council and which have been included within the Capital Programme. The Council may also receive additional block allocations of grant from central government and the City Region for 2023/24 but these have not yet been confirmed. The grant allocations will be added to the capital programme following approval by Cabinet and Council. The estimated amounts to be received that have been included in the estimates of capital expenditure (above) are shown below for information:
- Disabled Facilities Grant - £4.823m
 - Schools Condition Allocation - £2.426m
 - Devolved Formula Capital Grant - £0.363m
 - City Region Sustainable Transport Settlement - £8.154m.
- 2.4. The increase in capital expenditure from 2022/23 to 2024/25 shown in the table above represent additional allocations added as part of the traditional capital programme and new schemes included in the Council's Strategic Investment Programme including the Southport Town Deal. Due to the size and complexity of the Council's capital programme, some schemes may also be rescheduled from previous years and thus increase the overall estimate of expenditure. The majority of the additional expenditure will be funded from external grants, contributions and capital receipts. This may change as grant allocations and additional capital schemes are made known to the Council and are approved for inclusion within the Capital Programme.
- 2.5. Southport is set to receive £37.5m in government funding for a range of projects across the town centre and sea front following a successful bid to the Government's Towns Fund. The award represents one of the largest Town Deals that the government has agreed nationally and across 101 towns.
- 2.6. The business cases for each of the projects have now been approved by the Department for Levelling Up, Housing and Communities (DLUHC) – for the £37.5m Town Deal funding – and by the Liverpool City Region Combined Authority who are providing an additional £20m towards the Marine Lake Events Centre development. Procurement activity in relation to the projects has commenced and they are moving towards the delivery phase with delivery of all projects currently anticipated by 2025/26. Estimates of capital expenditure for the Town Deal projects have been included in the total estimates of capital expenditure shown above.

3. Prudential Indicator – Financing Costs/Net Revenue Stream

- 3.1. This indicator measures the total capital financing costs of capital expenditure as a proportion of the total level of income from Government Grants, local Council

Tax and Business Rates payers. This measure demonstrates the affordability of capital plans by comparing the cost of borrowing undertaken to fund the capital programme (in previous years and for planned expenditure in future years) to the net revenue available to the Council in each of those years.

- 3.2. Actual figures for 2021/22 and estimates of the ratio for 2022/23 and future years are:

Financing Costs / Net Revenue Stream					
	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio	5.9%	6.1%	5.7%	5.9%	5.8%

- 3.3. The estimates of financing costs include current commitments and proposals contained in the capital programme and new borrowing requirements in the Capital Programme. These borrowing requirements include projects and schemes that generate savings and income streams to the Council that support repayment schedules.
- 3.4. It should be noted that investment income is no longer offset to financing costs for the purposes of calculating this ratio, causing a rise in the ratio compared to previous years' prudential indicators, due to the revised reporting requirements under the 2021 Prudential Code. This is purely a reporting change however, and the Council's financing costs have not increased materially from those experienced in previous years due to the policy of internal borrowing and utilising cash balances as opposed to taking out new loans to finance the capital programme.

4. Prudential Indicator – Net Income from Commercial and Service Investments to Net Revenue Stream

- 4.1. This indicator measures the proportion of the authority's net revenue stream that is derived from non-treasury investments such as service investments (loans to subsidiaries) and commercial investments (investment properties). Commercial investments relate to legacy arrangements such as concessions at Southport seafront, parks and gardens; the freehold interest in the Strand Shopping Centre; rents linked to small retail units; industrial units; clubs; and car park income. The indicator is a measure of the exposure to loss of income should the net return from those investments fall short of the target set in the budget.

Net Income from Commercial and Service Investments to Net Revenue Stream					
	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio	1.1%	1.1%	1.0%	1.0%	1.3%

4.2. As can be seen from the ratios above this is a relatively low percentage of the Council's revenue stream indicating that the Council's budget is not overly reliant on commercial and service investment income. Variations to planned levels of income are also reflected in the Council's Medium Term Financial Plan. Should a shortfall in investment income occur then the plan will be adjusted accordingly, and corresponding savings will need to be made to compensate for the loss of income.

5. Prudential Indicator – Capital Finance Requirement

5.1. The Capital Financing Requirement (CFR) indicator reflects the Authority's underlying need to borrow for a capital purpose. This is based on historic capital financing decisions and a calculation of future years planned capital expenditure requirements.

5.2. Actual 2021/22 and estimated year-end Capital Financing Requirements for current and future years are set out in the table below:

Capital Financing Requirement					
	31/03/22 £m Actual	31/03/23 £m Estimate	31/03/24 £m Estimate	31/03/25 £m Estimate	31/03/26 £m Estimate
CFR	233.130	232.864	236.071	237.969	245.453

6. Prudential Indicator – Borrowing Limits

6.1. External borrowing undertaken by the Council arises as a consequence of all the financial transactions of the Authority, both capital and revenue, and not simply those arising from capital spending. The Council manages its Treasury Management position in terms of its external borrowings and investments in accordance with its approved Treasury Management Strategy and Policy Statements. These documents are presented for approval elsewhere on this agenda.

6.2. The Operational Boundary

6.2.1. The Operational Boundary sets a limit on the total amount of long-term borrowing that the Council can undertake. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with approved Treasury Management Policy Statement and practices. The figures are based on prudent estimates.

6.2.2. In respect of the Operational Boundary, it is recommended that the Council approves the following limits for the next three financial years. These limits separately identify borrowing from other long-term liabilities arising from finance leases, the PFI scheme and the transferred debt from the now defunct Merseyside Residuary Body.

Operational Boundary				
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	157	160	169	182
Other Long-Term Liabilities	6	5	4	3
TOTAL	163	165	173	185

6.2.3. The Council is asked to approve these limits and to delegate authority to the Executive Director of Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the movement between the separately agreed limits for borrowing and other long-term liabilities within the total limit for any individual year.

6.3. The Authorised Limit

6.3.1. The Authorised Limit sets a boundary on the amount of borrowing (both short and long-term) that the Council undertakes. It uses the Operational Boundary as its base but also includes additional headroom to allow, for example, for exceptional cash movements. Under the terms of section 3 (1) of the Local Government Act 2003, the Council is legally obliged to determine and review how much it can afford to borrow i.e., the Authorised Limit. The Authorised Limit determined for 2022/23 will be the statutory limit determined under section 3 (1).

6.3.2. The Council is asked to delegate authority to the Executive Director of Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the movement between the separately agreed limits for borrowing and other long-term liabilities within the total limit for any individual year. Any such changes will be presented to Cabinet and Council for approval at the next available meeting. The Authorised Limit for external debt is as follows:

Authorised Limit				
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	182	185	194	207
Other Long Term Liabilities	6	5	4	3
TOTAL	188	190	198	210

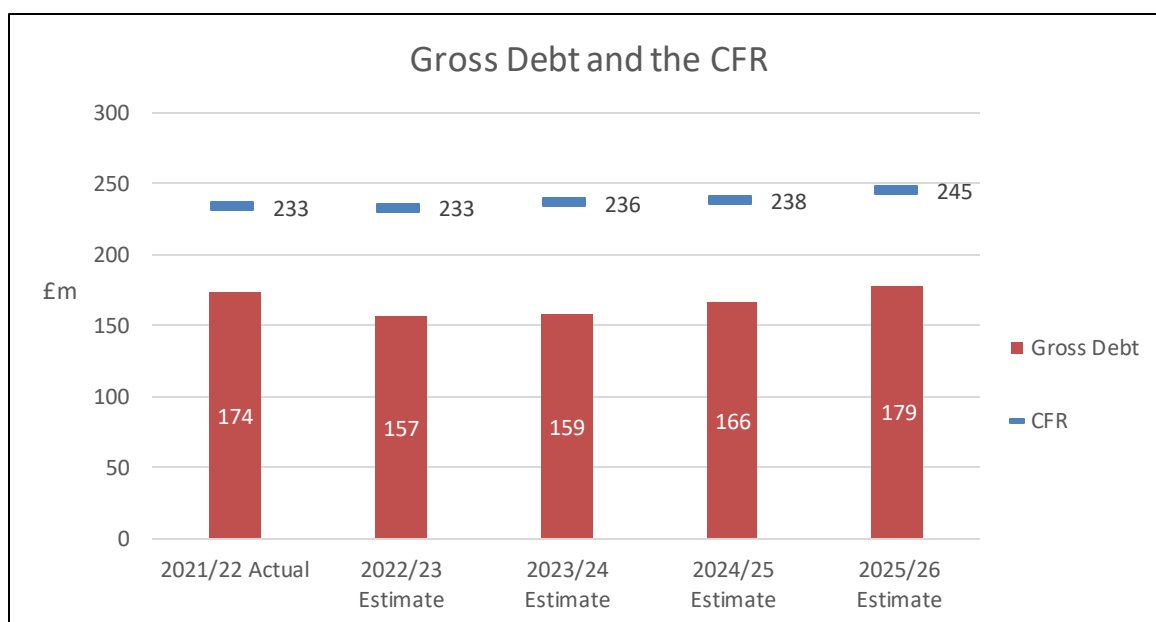
7. Prudential Indicator – Actual External Debt

7.1. The Prudential Code requires that in setting indicators for 2023/24, the Council reports its actual levels of external debt as at 31st March 2022. The Council's actual external debt at 31st March 2022 was:

	31/03/2022
	£m
Borrowing	167.205
Other Long Term Liabilities	6.481
TOTAL	173.686

8. Gross Debt and the Capital Financing Requirement (CFR)

- 8.1. This prudential indicator is used to ensure that the authority does not borrow in advance of need. If the authority borrowed in advance of need then the net position would be negative – i.e. borrowing greater than the CFR.
- 8.2. The chart below illustrates that the Council is not intending to borrow in advance of need, and that there is a significant level of “under borrowing”.

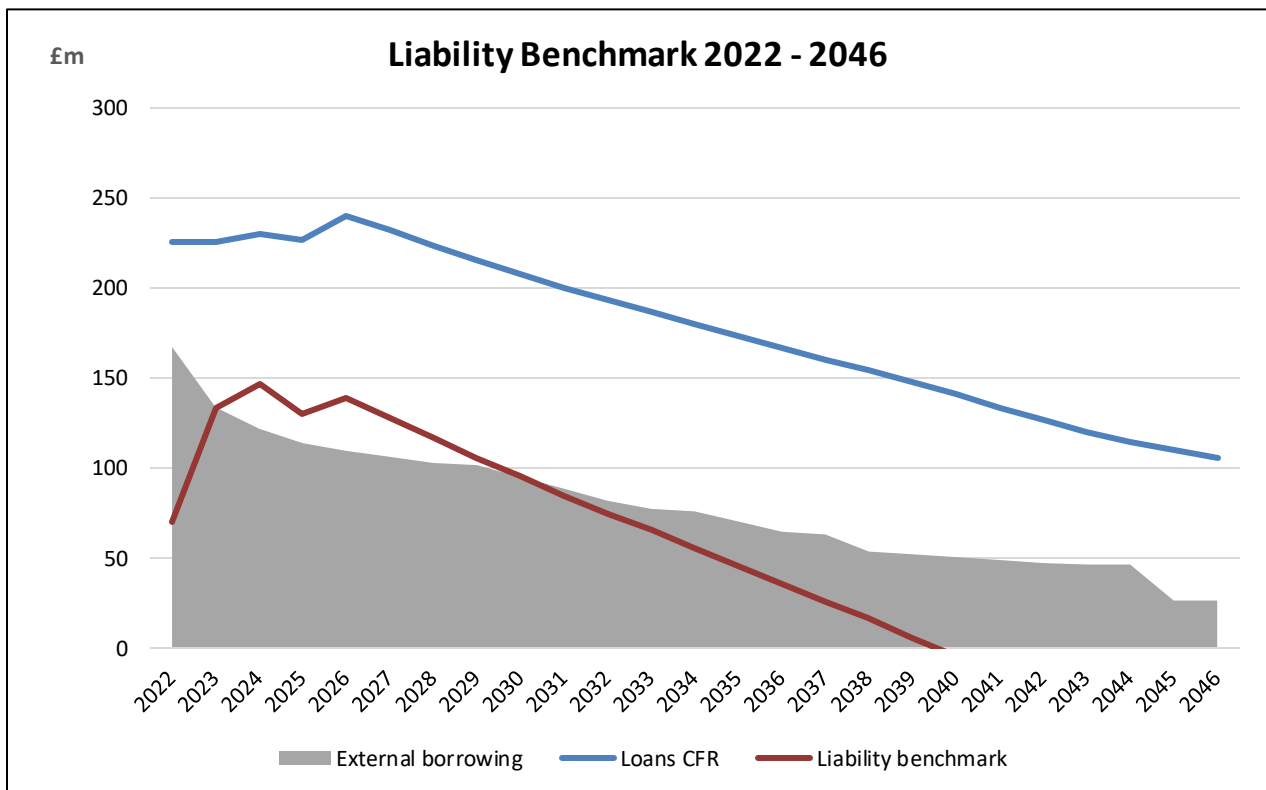


- 8.3. The higher level of gross debt shown during 2021/22 represents an upfront payment to Merseyside Pension Fund funded by borrowing. This has generated a significant saving to the Council whilst still maintaining the under borrowing position.
- 8.4. The estimates of gross debt for 2022/23 to 2025/26 include replacement borrowing for maturing loans and borrowing for schemes previously approved by Council for inclusion in the Capital Programme. The higher amount shown in 2025/26 represents approved borrowing as part of the Southport Town Deal – Marine Lake Events Centre project as outlined in paragraph 2.6.

9. Liability Benchmark

- 9.1. The chart below shows the liability benchmark that has been calculated for 2022 and future years. The following explanations are provided to assist with understanding the chart:

- i. Grey shaded area – represents the Council’s current fixed term loans for 2022 and future years. The amounts shown do not include any new borrowing for schemes included in the capital programme or replacement borrowing for maturing loans, hence the line reduces over time as existing loans are paid off.
- ii. Solid blue line – an estimate of Loans Capital Financing Requirement (the CFR less any other long-term debt liabilities), this being the required level to fund the capital programme.
- iii. Solid red line – a forecast of the year end liability benchmark representing the lowest amount of borrowing that should be undertaken to maintain the Council’s liquidity and minimise credit risk.



- 9.2. Where the liability benchmark exceeds the amount of fixed term loans then this indicates a borrowing requirement for the local authority. As can be seen above, Sefton has a borrowing requirement from 2024 to 2029. This borrowing requirement arises as historic loans are paid off and the level of forecast reserves and balances diminishes over time.
- 9.3. It is anticipated that the above borrowing requirement is manageable within the current borrowing strategy. As mentioned in paragraph 8.2 (above), the Council is significantly under-borrowed and may reverse this position at any time by borrowing from the PWLB. Replacement loans from the PWLB may, despite recent rises in borrowing rates, be taken at lower rates than historic loans that were taken out when rates were higher and therefore interest payments on these loans will be lower.

10. Prudential Indicators – Treasury Management

10.1. The Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services. The annual Policy and Strategy Documents establish the following debt maturity profiles, an upper limit for long term investments made by the Council, and an Interest Rate Risk Indicator:

10.2. Debt Maturity Profile

10.2.1. A debt maturity profile is detailed in the following tables i.e., the amount of borrowing that is maturing in each period as a percentage of total projected borrowing:

Debt Maturity	<u>Upper Limit</u>	<u>Lower Limit</u>
Under 12 months	15%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	45%	10%
10 years and within 15 years	45%	10%
15 years and above	50%	30%

10.2.2. The table above shows, for each maturity period, the minimum and maximum amount of debt that the Council can hold as a percentage of its total external debt. For example, when deciding to take out a loan that is due to mature within the next 24 months, the Council must ensure that this does not take the total amount of debt due to be repaid to more than 20% of all Council debt.

10.3. Long Term Treasury Management Investments

10.3.1. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

10.3.2. The limits shown below are the maximum amounts that can be invested beyond the end of the financial year. The authority cannot therefore hold more than £15m due to mature after 31 March 2024, no more than £10m due to mature after 31 March 2025 and £5m after 31 March 2026. A limit is also set for investments with no fixed maturity date such as strategic pooled funds and the property fund.

Long Term Treasury Management Investments					
	2022/23	2023/24	2024/25	2025/26	No Fixed Maturity
Upper Limit	£15m	£15m	£10m	£5m	£15m

10.3.3. This limit will be kept under review to take advantage of any opportunities in the current money market.

10.4. Interest Rate Risk Indicator

10.4.1. This indicator is set to control the Authority's exposure to interest rate risk. A target is set for the one-year impact of a 1% rise and a 1% fall in interest rates on the revenue account. This is measured by examining the parallel shifts in yield curves on borrowing net of treasury investments.

10.4.2. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m

10.4.3. It should be noted that the limit set is not intended to be a hard limit that will constrain new investments and it would not be unusual for the limit to be exceeded on occasion during the course of normal treasury management activity during the year. Any material deviation from the limits set will be reported as part the quarterly monitoring of prudential indicators.

11. Monitoring Prudential Indicators

11.1. Having established the Prudential Indicators, the Executive Director of Corporate Resources and Customer Services will monitor them during the year and report on actual performance to the Audit & Governance Committee on a quarterly basis. An outturn report of performance against the Prudential Indicators will be presented to both Cabinet and Council following the financial year end.

Summary of Prudential Indicators

Appendix A

Capital Expenditure					
	2021/22 £m Actual	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate
TOTAL	32.536	50.136	76.543	60.185	33.342

Financing Costs / Net Revenue Stream					
	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio	5.9%	6.1%	5.7%	5.9%	5.8%

Capital Financing Requirement					
	31/03/22 £m Actual	31/03/23 £m Estimate	31/03/24 £m Estimate	31/03/25 £m Estimate	31/03/26 £m Estimate
CFR	233.130	232.864	236.071	237.969	245.453

Net Income from Commercial and Service Investments to Net Revenue Stream					
	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio	1.1%	1.1%	1.0%	1.0%	1.4%

Gross Debt and the Capital Financing Requirement					
	2021/22 £m Actual	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate
CFR	233.130	232.864	236.071	237.969	245.453
Gross Debt	173.686	157.094	158.597	166.448	178.609
Under / (Over) Borrowing	59.445	75.769	77.474	71.521	66.844

Liability Benchmark	31.03.22 Actual £m	31.03.23 Estimate £m	31.03.24 Forecast £m	31.03.25 Forecast £m	31.03.26 Forecast £m
Loans CFR *	225.7	225.9	229.7	227.1	240.5
Less: Balance sheet resources	-165.3	-102.6	-93.1	-106.9	-111.2
Net loans requirement	60.4	123.3	136.6	120.2	129.3
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	70.4	133.3	146.6	130.2	139.3

* CFR excluding other long-term debt liabilities

Operational Boundary				
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	157	160	169	182
Other Long-Term Liabilities	6	5	4	3
TOTAL	163	165	173	185

Authorised Limit				
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	182	185	194	207
Other Long Term Liabilities	6	5	4	3
TOTAL	188	190	198	210

Debt Maturity	<u>Upper Limit</u>	<u>Lower Limit</u>
Under 12 months	15%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	45%	10%
10 years and within 15 years	45%	10%
15 years and above	50%	30%

Long Term Treasury Management Investments					
	2022/23	2023/24	2024/25	2025/26	No Fixed Maturity
Upper Limit	£15m	£15m	£10m	£5m	£15m

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m